



Kemp Commission's Tax Reform Proposal Released

Calling for the repeal of current federal tax law in its entirety, the national Commission on Economic Growth and Tax Reform issued on January 16 its long-awaited recommendations for federal tax reform. The report is titled *Unleashing America's Potential: A pro-growth, pro-family tax system for the 21st century*. It represents the Commission's response, formulated over 18 months, to their charge to map out a totally new tax structure.

The Commission, appointed by Senator Bob Dole and Representative Newt Gingrich, was chaired by Jack Kemp and included California State Treasurer among its members. The Commission conducted extensive public hearings across the country and took testimony from a diverse group of American citizens and business representatives.

Is the Current System Broken?

The Commission responds to this question with a resounding yes. In the words of Commission Chairman Jack Kemp, "*The current system is indefensible; it is riddled with special interest tax breaks, and it overtaxes both capital and labor.*" There are three principal defects with the current system, according to the Commission: it is *economically destructive*, because it penalizes saving, investment, and hard work; it is *impossibly complex*, so that its rules and regulations impose horrendous burdens on taxpayers and the economy; and it is *overly intrusive*, as the enforcement powers of the IRS increasingly infringe on privacy and personal freedom.

The report contains numerous anecdotes and statistics that illustrate its indictment of the current tax system. One of the more compelling of

these is a Tax Foundation estimate of the total cost of compliance with the tax laws faced by individuals and businesses--about \$200 billion per year.

Principles Define Goals of New Tax System

The report presents six "*working principles*" that represent the foundation for its recommended changes. These principles include:

- *Promotion of Economic Growth*, through incentives to work, save and invest;
- *Fairness*, so that all citizens are treated equally;
- *Simplicity*, so that anyone can figure out their taxes;
- *Neutrality*, to avoid creating winners or losers or favoring consumption over investment;
- *Visibility*, so that the cost of government is made evident;
- *Stability*, to facilitate people planning for their future.

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Good News !! From Wall Street

On January 31 and February 1, the State Treasurer and a group of high level State officials presented the new Governor's Budget and the State's 1996 plan of financing to the three rating agencies in New York. On February 26, Fitch upgraded the State's credit rating to A+ from A, citing the State's improved financial condition. Also, Standard & Poor's and Moody's Investors Service have reaffirmed the State's credit ratings of A and A1 respectively.

Ask the State Treasurer

Q: Can I register my state issued bearer bonds?

A: Yes. You may register your bearer bonds by submitting them to our office in Sacramento. To prevent any loss, we recommend the use of registered and insured mail when submitting bearer bonds for registration. Please include complete instructions indicating the name(s) and address to be included in the registration. If you are proposing to register the bond in the name of a trust, custodial account or partnership, please contact the Bond Services Section at (916) 653-2884 for additional instructions. The registration is free.

Q: I registered my state issued bearer bond a few years ago, can I convert it to a bearer bond again?

A: Yes. If the bond was originally issued in bearer form and subsequently converted to registered form, the owner of this bond has the option of converting it back to bearer form. For more information, please contact the Bond Services Section at (916) 653-2884.

Listing of Redemptions

This listing reflects redemptions officially announced as of February 29, 1996. On April 1, 1996 the following bonds will be redeemed:

State Beach, Park, Recreational and Historical Facilities Bond Act of 1974, Series J (Partial Redemption)

\$1,250,000, due April 1, 1998 will be redeemed.

State, Urban and Coastal Park Bond Act of 1976, Series B (Partial Redemption)

\$1,250,000, due April 1, 1998 will be redeemed.

State Public Works Board of the State of California High Technology Facilities Lease Revenue Bonds (Trustees of The California State University), 1986 Series A (Long Beach Facility) (Full Redemption)

\$12,045,000, due April 1, 2006 will be redeemed.

State Public Works Board of the State of California High Technology Facilities Lease Revenue Bonds (Trustees of The California State University), 1986 Series A (San Luis Obispo Facility) (Full Redemption)

\$5,950,000, due April 1, 2006 will be redeemed.

Veterans Bonds Series, AY (Partial Redemption)

\$6,400,000, due April 1, 2019 will be redeemed.

Veterans Bonds, Series AX (Partial Redemption)

\$100,000, due April 1, 2004 will be redeemed.

If there are any questions regarding the purpose or timing of these calls, please call (916) 653-3451. For redemption payment or registration information, please call (916) 653-2884.

Bond Sales Calendar*

Please see page 3 for announcement of underwriters and bond counsel for the upcoming sales listed below. If you are interested in purchasing any of these bonds, please contact your broker a couple of weeks before the sale date. For updated information regarding sale dates, please contact the State Treasurer's Office at (916)653-3243.

BOND SALES	AMOUNT in millions	SALE DATE
General Obligation Bonds (Refunding)	\$180	February 28, 1996
State Public Works Board, California Community Colleges, Lease Purchase Revenue Bonds	\$240	Spring 1996
State Public Works Board, California State University, Lease Purchase Revenue Bonds	\$265	Spring 1996
State Public Works Board, Department of Corrections, Lease Purchase Revenue Bonds	\$590	Spring 1996
State Public Works Board, California Museum of Science and Industry, Lease Purchase Revenue Bonds	\$32	Spring 1996 or Summer
1995-96 Revenue Anticipation Notes (RANs)	\$2 billion or less	Mid-April 1996
1996-97 Revenue Anticipation Notes (RANs)	\$3.2 billion or less	July 1996

*Subject to change

Treasurer Appoints Financing Teams For Sales of State Bonds

On February 8, the State Treasurer announced the appointments of underwriters and bond counsel for the upcoming sales of state bonds (see bond sales calendar on page 2).

◆ A refunding of \$180 million general obligation bonds is scheduled to receive sealed bids at 9:00 a.m., on February 28. Orrick, Herrington & Sutcliffe will serve as lead bond counsel with Lofton, Delancie & Nelson as co-bond counsel and Best, Best & Kreiger as disclosure counsel. Public Resources Advisory Group (PRAG) was selected as financial advisor. Since the result of this sale is not available at this writing, we will report to you in April.

◆ J.P. Morgan has been appointed as senior underwriter and Brown & Wood as lead bond counsel for a \$240 million State Public Works Board (PWB) Lease Revenue bond issue for California Community Colleges. Stone & Youngberg; A.G. Edwards & Sons, Inc.; Henderson Capital Partners; and WR Lazard, Laidlaw & Luther were appointed as co-managers. Chan and Christensen was named co-bond counsel. PRAG was selected as financial advisor.

◆ Prudential Securities will serve as senior underwriter and O'Melveny & Meyers as lead bond counsel for a \$265 million PWB Lease Revenue bond issue for California State University. Also named as co-managers are Alex Brown & Sons, Inc.; William E. Simon & Sons; Great Pacific Securities, Inc.; and Emmett A. Larkin. The firm of Giancarlo & Gnazzo will serve as co-bond counsel. PRAG was selected as financial advisor.

◆ Bear Stearns will serve as senior underwriter and Orrick, Herrington & Sutcliffe as lead bond counsel for a \$590 million PWB Lease Revenue bond sale to finance construction of the new Corcoran State Prison and Drug Treatment Facility, and to refund bonds previously issued for the Soledad Prison in Monterey County. BA Securities, Inc.; Prudential Securities; J.C. Bradford; Yaeger Capital Markets, Inc.; and E.J. De La Rosa & Co., Inc. will serve as co-managers. Jones Hall Hill & White will

be co-bond counsel. PRAG was selected as financial advisor.

◆ Redwood Securities Group was appointed senior underwriter for a \$32 million PWB Lease Revenue bond issue for construction of the California Museum of Science & Industry. Lehman Brothers and I.C. Rideau Lyons & Co. will be co-managers. Frye, Spencer & Hsieh was named lead bond counsel. The firm of Buchalter, Nemer, Fields & Younger was appointed as co-bond counsel.

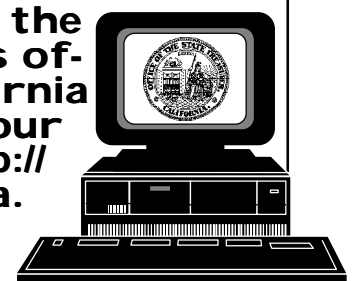
◆ BA Securities, Inc. has been appointed as senior underwriter for the 1995-96 Revenue Anticipation Notes (RANs) to be sold in mid-April. Morgan Stanley and Lehman Brothers will serve as co-senior managers. Orrick, Herrington & Sutcliffe has been appointed lead bond counsel. The Law Offices of Joaquin A. Talleda was named co-bond counsel. Sheppard, Mullin, Richter & Hampton was selected as disclosure counsel. PRAG will be the financial advisor.

◆ The 1996-97 RANs are scheduled for sale in July when the new budget is adopted. Lehman Brothers was selected as senior underwriter and Orrick, Herrington & Sutcliffe as lead bond counsel. BA Securities, Inc.; J.P. Morgan; and Grigsby Brandford will be co-senior managers. Law Offices of Leslie Lava is appointed as co-bond counsel, and Cox, Castle & Nicholson is disclosure counsel. PRAG is the financial advisor.

The appointments were made from a pool of underwriters and bond counsel announced by the State Treasurer in April, 1995. The financing teams will assist the State Treasurer in the issuance of the bonds mentioned above.

STO is on the Internet

You can locate the State Treasurer's office on the California Home Page or at our own web site (<http://WWW.Treasurer.ca.gov>)



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The "Tax Test" - Six Core Recommendations

The report contains six core recommendations for the development of a new tax system. Recognizing the inevitable tradeoffs that must be made in negotiating a legislative agreement on tax reform, the Commission did not recommend a *specific* tax structure. Instead, it has provided what it refers to as a "*tax test*" - a set of standards that any negotiated tax proposal must meet. The six core recommendations include:

1. Adopt a single, low tax rate.
2. Adopt a generous personal exemption.
3. Lower the tax burden on America's working families and remove it on those least able to pay.
4. End biases against work, saving and investment.
5. Allow full deductibility of the payroll (social security) tax for working men and women.
6. Require a two-thirds super-majority vote in Congress to increase tax rates.

Major Issues To Be Resolved Before Adoption

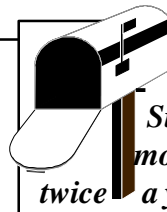
The Commission's report also addresses several other issues that must be resolved in adopting a new tax system. These include:

Deductions and Exclusions. These should be considered with an eye to their impact on the tax rate, the costs to the Treasury, and the consequences to the people of these changes. The home mortgage interest deduction is identified as one which has spurred home ownership, a goal the Commission supports. The report takes no position on the exemption of municipal bond interest income.

Simplify International Taxation. The report suggests that Congress consider a territorial tax system and insist that the system more clearly, simply and certainly determine what is foreign or domestic income and when an international transaction is taxable.

Strengthen Private Retirement Saving. The tax system should have no bias against saving, and should encourage people to save for their own retirement.

Dynamic Revenue Estimates. Congress should take account of the effect that policy changes have on individuals' behavior when it evaluates the fiscal consequences of legislation.



Newsletter Mailing List

*Since interest checks are mailed every six months, you will receive **The Treasury Note** twice a year unless you hold other California State bonds with different interest payment dates. If you would like to be on the mailing list to receive **The Treasury Note** monthly, please send your name and address to the Investor Relations Program at the address on the previous page.*

From The Budget Front

- The State has tallied up its tax receipts through January. The total revenues from July 1, 1995 through January 31, 1996 are still ahead of the budgeted amount by approximately \$200 million. The three major revenue sources (Bank and Corporations, Personal Income, and Sales taxes) are still tracking the budgeted amounts. The amount over budget, \$200 million, was principally contributed by Personal Income (\$119 million) and Sales taxes (\$77 million).
- In the February issue of the *Treasury Note*, we reported that the Governor's Budget forecast was slightly more conservative than the Legislative Analyst's Office's (LAO) November, 1995, projection. On February 21, LAO released its analysis of the Governor's Budget and an updated economic forecast. Generally, the LAO's latest forecast is in line with that of the Governor's Budget except in personal income. The LAO's forecast of percentage change in personal income for 1996 at 6.0% is slightly ahead of the Governor's Budget at 5.7%.

By maximizing the opportunity for individual success and economic growth, the Commission expects that incomes will be lifted, interest rates will be reduced, people will be put to work, and millions of new jobs will be fostered. This extra activity will effectively offset the costs of transition and help to keep the tax rate low. At the least, it should inspire a great deal of discussion about the proper direction for the tax system of the future.